



Investment Committee

Item Number 8 – Open Session

Subject: Approval of Minutes of the August 31, 2022, Investment Committee – Open Session

Presenter(s): Chairperson

Item Type: Consent Action

Date & Time: November 3, 2022 – 0 minutes

Attachment(s): None

PowerPoint(s): None

PROPOSED MINUTES

Teachers' Retirement Board – Investment Committee Meeting

August 31, 2022

OPEN SESSION

LOCATION: Board Room, 100 Waterfront Place, West Sacramento, CA 95605

COMMITTEE MEMBERS PRESENT

William Prezant, Chairperson

Gayle Miller, representing the Director of Finance, Joe Stephenshaw, Vice Chairperson

Denise Bradford

Sharon Hendricks

Harry Keiley

Michael Gunning

Ken Tang

Jennifer Urdan

Karen Yamamoto

Blake Johnson, representing the State Superintendent of Public Instruction, Tony Thurmond

Frank Ruffino, representing the State Treasurer, Fiona Ma

Betty Yee, State Controller

OTHER BOARD MEMBERS PRESENT

Lynn Paquin, representing the State Controller, Betty Yee

STAFF PRESENT

Cassandra Lichnock, Chief Executive Officer

Christopher Ailman, Chief Investment Officer

Brian J. Bartow, General Counsel

Lisa Blatnick, Chief Operating Officer

Ashish Jain, Chief Technology Officer

Melissa Norcia, Chief Administrative Officer

Bill Perez, Chief Benefits Officer

Teresa Schilling, Chief Public Affairs Officer

Julie Underwood, Chief Financial Officer

Scott Chan, Deputy Chief Investment Officer

Mike DiRé, Director, Real Estate

Shifat Hasan, Head of Investment Performance and Compliance

Glenn Hosokawa, Director, Fixed Income

Kirsty Jenkinson, Director, Sustainable Investments and Stewardship Strategies

Geraldine Jimenez, Director, Investment Strategy and Risk

June Kim, Director, Global Equities

Paul Shantic, Director, Inflation Sensitive

Steven Tong, Director, Risk Mitigating Strategies

April Wilcox, Director of Investment Services

Margot Wirth, Director, Private Equity

Kelly Criss, Head of Investment Operations

Josh Diedesch, Portfolio Manager, Investment Strategy and Risk

David Murphy, Portfolio Manager, Global Equity

Scott Brooks, Senior Counsel

OTHER PRESENT

Allan Emkin, Meketa Investment Group

Tad Fergusson, Meketa Investment Group

John Haggerty, Meketa Investment Group

Taylor Mammen, RCLCO

Ben Maslan, RCLCO

Stephen McCourt, Meketa Investment Group

Stephanie Sorg, Meketa Investment Group

Andrea Auerbach

Jennifer Baker, CalRTA

Joe Bartell, CTA

Charles Denonn, CalRTA

Dana Dillon

Suzie Dixon, CalRTA

Dave Davini, ACSA

Orval Garrison, CTA/NEA-Retired
Pat Geyer, CalRTA
Alyssa Giachino, Private Equity Stakeholder Project
Leonard Goldberg, UTLA
Phyllis Hall
Angelique Hill, CalRTA
CJ Koepp, Fossil Free California
Rose Luna, CTA
Genevieve Porter, Fossil Free California
MaryKay Scheid
Don Stauffer, CTA/NEA-Retired
Kevin Welch, CTA
Ilonka Zlatar, 350 Sacramento

A quorum being present, Chairperson Prezant called the Open Session meeting of the Investment Committee meeting to order at 9:03 a.m.

I. APPROVAL OF COMMITTEE AGENDA (Item 1)

The Committee Agenda was received, considered, and approved by the consent of the committee.

Members Voting	Aye	Nay	Abstain
Ms. Bradford	X		
Ms. Hendricks	X		
Mr. Keiley	X		
Mr. Gunning	X		
Mr. Tang	X		
Ms. Yamamoto	X		
Mr. Johnson, for the Superintendent of Public Instruction	X		
Ms. Miller, for the Director of Finance	X		
Mr. Ruffino, for the State Treasurer	X		
Controller Yee	X		
Chairperson Prezant	X		

II. OPPORTUNITIES FOR STATEMENTS FROM THE PUBLIC (Item 2)

The committee heard from Genevieve Porter, who urged the committee to divest from fossil fuels, and specifically Chevron and Phillips 66.

The committee heard from CJ Koepp, who urged the committee to divest from fossil fuels.

The committee heard from Ilonka Zlatar, who urged the committee to divest from fossil fuels.

The committee heard from Alyssa Giachino, who discussed concerns about SERVPRO, a disaster recovery and restoration company owned by Blackstone Core Equity Partners. Ms.

Giachino discussed a range of reported labor issues by SERVPRO and urged CalSTRS to ask Blackstone how it responds to concerns raised by stakeholders.

III. NET ZERO FIRST YEAR PROGRESS AND PLANNING UPDATE (Items 3a and 3b)

Chairperson Prezant provided opening remarks, expressing appreciation to those providing public comment, and noting that staff will reach out to Servpro to address raised concerns. Commenting upon the issues of divestment and global climate change, the Chairperson welcomed the public's thoughts and shared their sincere concerns for reducing fossil fuel emissions, both because the future of humanity depends upon such reductions, and because it is economically beneficial to CalSTRS' members and beneficiaries. The Chairperson explained that the board will continue to make investment decisions that consider a decision-making process that contemplates a thorough analysis of risk, return, emissions, and funding status. The Chairperson also observed that the board is constitutionally obligated to administer the System to ensure the full and prompt payment of benefits to the members and beneficiaries.

The committee received a progress and planning update regarding the first year of the Net Zero pledge. The committee heard from Mr. Ailman, Mr. Chan, Ms. Jenkinson, Mr. Murphy, and Mr. Diedesch, who provided highlights of CalSTRS' net zero and low carbon strategy history and progress. The committee discussed staff's recommendation for a four-part implementation framework to achieve net-zero greenhouse gas emissions by 2050 or sooner, including: (1) a 2030 Interim Emissions Reduction Goal of 50% for the Total CalSTRS Fund; (2) a Net-Zero Investment Decision Making Process; (3) reducing emissions in Public Equity by adopting a target allocation of 20% to the MSCI ACWI Low Carbon Target Index; and (4) integrating climate scenarios into the CalSTRS Asset-Liability Management Framework.

The committee considered and differentiated between those actions that CalSTRS has control over to help align the portfolio with the net zero pledge – such as investment policy, risk, and benchmark decisions – and actions that others control – such as companies, regulators, and policy makers – but which CalSTRS can seek to influence. The committee emphasized the vigorous risk/return analysis of its investment decisions while transitioning to net zero emissions, and the need to continually monitor, refine, and adapt its approach to ensure the prudent management of the fund, without gambling the future security of its members.

The committee congratulated staff on its exceptional work for this initiative, noting the challenge climate change brings to our future and economy, and commending staff's rigorous analysis to ensure the members and beneficiaries receive their benefits, while simultaneously recognizing the risks climate change presents to the fund and world.

The committee emphasized CalSTRS' leadership and transparency, and discussed the need to increase its allocation of 20% to the MSCI ACWI Low Carbon Target Index over time while regularly measuring and monitoring its carbon footprint and tracking the transition to net zero by other countries, entities, and institutional investors. The

committee discussed improvements in carbon measuring tools, including supporting the SEC’s current proposed climate risk disclosure rule.

The committee considered opportunities to collaborate with other funds and investors to reach its goal of net zero emissions, and the implications and impact of the Inflation Reduction Act. The committee discussed significant hurdles in achieving a 50% reduction in emissions by 2030, including challenges in tracking the transition to net zero emissions by the fund and the world.

MOTION duly made by Ms. Miller, seconded by Ms. Yee, and carried to approve the recommendations for a four-part implementation framework to achieve net-zero greenhouse gas emissions by 2050 or sooner, including: (1) a 2030 Interim Emissions Reduction Goal of 50% for the Total CalSTRS Fund; (2) a Net-Zero Investment Decision Making Process; (3) reducing emissions in Public Equity by adopting a target allocation of 20% to the MSCI ACWI Low Carbon Target Index; and (4) integrating climate scenarios into the CalSTRS Asset-Liability Management Framework.

Members Voting	Aye	Nay	Abstain
Ms. Bradford	X		
Ms. Hendricks	X		
Mr. Keiley	X		
Mr. Gunning	X		
Mr. Tang	X		
Ms. Yamamoto	X		
Mr. Johnson, for the Superintendent of Public Instruction	X		
Ms. Miller, for the Director of Finance	X		
Mr. Ruffino, for the State Treasurer	X		
Controller Yee, for the State Controller	X		
Chairperson Prezant	X		

RECESS

The Open Session of the committee meeting recessed at 10:34 a.m. and reconvened at 10:51 a.m.

IV. OPEN SESSION SEMI-ANNUAL PERFORMANCE REPORTS (Item 4)

a. General Consultant – Semi-Annual Performance Report, Period Ending June 30, 2022

Ms. Urdan joined the dais at 11:24 a.m.

The committee received the General Consultant Semi-Annual Performance Report for the period ending June 30, 2022. The committee heard from Mr. McCourt and Mr. Emkin, who discussed the significant difference in market performance during the first and second half of the fiscal year – particularly for

the global equity and bond markets – which was driven primarily by inflation and the corresponding rise in interest rates. The committee applauded staff's thoughtful construction of the RMS asset class and shrewd asset allocation. The committee discussed how best to prepare for continued market volatility and inflation, and the difficulty in replicating the level at which interest rates have declined over the past forty years. The committee considered stagflation, the impacts of the Federal Reserve's tightening of liquidity on its balance sheets, and the significant savings of the fund through the collaborative model.

b. Real Estate – Semi-Annual Performance Report, Period Ending March 31, 2022

The committee received the Real Estate Semi-Annual Performance Report for the period ending March 31, 2022. The committee heard from Mr. Mammen and Mr. Maslan, who noted real estate's historic performance during the past year, fueled by favorable capital markets, low interest rates, and stimulated demand from savings generated during the Covid-19 lockdown. The committee discussed the portfolio's very slight underperformance to the benchmark due to property type allocation and the legacy portfolio. The committee discussed market trends for office space and toward remote working. The committee considered real estate physical risk factors and models. The committee also discussed the portfolio's allocation to retail space, and challenges in increased competition in multi-family housing and industrial sectors.

c. Private Equity – Semi-Annual Performance Report, Period Ending March 31, 2022

The committee received the Private Equity Semi-Annual Performance Report for the period ending March 31, 2022. The committee heard from Mr. Haggerty and Mr. Fergusson, who provided an overview of the portfolio's strong performance, which exceeded the custom benchmarks for each time horizon.

Mr. Ruffino and Ms. Hendricks left the dais at 11:55 a.m.

The committee discussed the successful implementation of the collaborative model and performance of the portfolio's co-investments, including the positive selection of strategies outside of the United States. The committee considered the progress and impacts of ESG disclosures. The committee discussed the portfolio's pacing and low risk posture compared to the broader market.

d. RMS and SISS Semi-Annual Monitoring Report, Period Ending June 30, 2022

Mr. Ruffino and Ms. Hendricks joined the dais at 12:15 p.m.

The committee received the RMS and SISS Semi-Annual Monitoring Report for the period ending June 30, 2022, from Mr. McCourt and Ms. Sorg. The committee discussed the positive results and implementation of RMS, which helped mitigate the impacts of a volatile global market. The committee considered implementation challenges with the RMS program, including liquidity and access with global macro and SRP components. The committee also discussed the high level of performance of the SISS Private Markets program, noting five current projects, the significant breadth and depth of the team’s pipeline, and highlighting the team’s ability to negotiate favorable fee terms.

V. CHIEF INVESTMENT OFFICER’S REPORT (Item 5)

The committee received the Chief Investment Officer’s Report from Mr. Ailman, who discussed the Special Mandates Policy Annual Report and the Divestment Policy Cost Analysis. Mr. Ailman provided an update on the fund’s total asset values and allocations; commented on current concerns surrounding inflation and increasing interest rates; and highlighted potential future risks to the fund, such as the ongoing conflict in Russia and Ukraine, and China and Taiwan. The committee discussed the fund’s increased asset allocation for Private Equity and Real Estate, as well as the significant portion of the Public Equity portfolio that will be allocated to the MSCI ACWI Low Carbon Target Index.

VI. APPROVAL OF MINUTES OF THE JULY 7, 2022, INVESTMENT COMMITTEE MEETING – OPEN SESSION (Item 6)

MOTION duly made by Ms. Hendricks, seconded by Ms. Yamamoto, and carried to approve the Minutes of the July 7, 2022, Investment Committee Meeting – Open Session.

Members Voting	Aye	Nay	Abstain
Ms. Bradford	X		
Ms. Hendricks	X		
Mr. Keiley	X		
Mr. Gunning	X		
Mr. Tang	X		
Ms. Urdan	X		
Ms. Yamamoto	X		
Mr. Johnson, for the Superintendent of Public Instruction	X		
Ms. Miller, for the Director of Finance	X		
Mr. Ruffino, for the State Treasurer	X		
Controller Yee	X		
Chairperson Prezant	X		

VII. REVIEW OF INFORMATION REQUESTS (Item 7)

Pursuant to Item 4b, the committee requested information on the effect an increased allocation to real estate would have on risk and return at the overall fund level.

The committee requested information on the impact to the total fund that would result from overweighting, underweighting, or excluding emerging markets, particularly in countries which lack the rule of law, in the upcoming Asset Liability Management study.

The committee requested information on the extent to which the decision to allocate 20% to the MSCI ACWI Low Carbon Target Index impacts CalSTRS' existing benchmarks.

VIII. DRAFT AGENDA FOR NEXT COMMITTEE MEETING (Item 8)

The committee reviewed the Draft Agenda for the next Investment Committee Meeting.

IX. OPPORTUNITY FOR ADDITIONAL STATEMENTS FROM THE PUBLIC

There were no additional statements from the public.

RECESS

The Open Session of the committee meeting recessed at 12:42 p.m. and the committee went into Closed Session. The committee meeting reconvened in Open Session at 3:28 p.m.

Chairperson Prezant stated that there was nothing to report out as the committee took no action while in Closed Session.

X. ADJOURNMENT

There being no further business to conduct, Chairperson Prezant adjourned the meeting at 3:28 p.m.

Cassandra Lichnock, Chief Executive Officer
And Secretary to the Teachers' Retirement Board

William Prezant, Chairperson

Prepared by: Scott S. Brooks, Senior Counsel